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THE MILITARY CONSTRUCTION PROCESS

AND

DEPARTMENT OF DEFENSE MANAGEMENT

by

David Louis Harlow

Thesis
H244

NAVAL POSTGRADUATE SCHOOL
MONTEREY, CALIF. 93940

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Bachelor of Science

United States Naval Post Graduate School, 1960

A Thesis Submitted to the School of Government and Business Administration of The George Washington University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

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PREFACE

The writer, intrigued by the budget process within the Department of Defense, investigated the field of military construction in order to determine how the Department is organized and managed to meet military construction requirements within that process. Since little is written as to the organization and management of military construction as a separate category, development of information for this paper was often frustrating. However, there appears to be a real need within the Naval Service for greater understanding of this process, and it is to this purpose that this thesis has been written.

To Dr. Karl E. Stromsem, the writer owes a special debt for his share in the inception of this work, as well as his expert criticism and helpful suggestions. Assistance in research was cheerfully given by officers and civilians contacted in the Office of the Secretary of Defense, in the Office of the Chief of Naval Operations, and in various bureaus and offices of the Navy Department.

To Mrs. W. N. Schaller, the writer is indebted for her kind and considerate help in preparing this thesis in its final form.

INTRODUCTION

The Department of Defense expends more than 3.0 billion dollars annually in its military construction program.[1] This expenditure represents the resource cost of all acquisitions of land or facilities by purchase, transfer or gift (but not by lease) as well as the building of new facilities and the modification of existing facilities.[2] The construction program is in direct support of the mission objectives and operating requirements of the military services and the various defense agencies.

Although the 3.0 billion dollar construction program is a small part of the approximate 61.4 billion dollar total defense budget,[3] it is the subject of a great deal of public interest. Where executed, military construction projects are subjected to critical analysis both locally and nationally. The Wall Street Journal recently reported:

> "Defense Secretary McNamara gave a boost to the ailing construction industry by freeing $564 million to build military housing, barracks and other projects. ...The Administration is again recognizing the beneficial effect this action will have on the home building industry."[4]

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1 U.S. Congress, House, Committee on Appropriations, Military Construction Appropriations Bill of 1967, 89th Cong., 2nd Sess., 1966, C. Rept. to accompany H.R. 17636, p. 3.

2 Department of Defense, Office of the Assistant Secretary of Defense, Comptroller, Program for Improvement in Financial Management in the Area of Appropriations for Acquisition of Military Real Property, DOD Directive 7040.2 change 1, (March 29, 1962).

3 Executive Office of the President, Bureau of the Budget, The Budget in Brief, Fiscal Year 1967, (Washington, D.C., U.S. Government Printing Office, January 1966), p. 26.

4 The Wall Street Journal, January 23, 1967, p. 6.

INTRODUCTION

The Department of Defense expends more than its military peers
annually in its military construction program.[1] This appropriation supports
the resources used at all applications of land or facilities by personnel
employed on that land or issued to aid in the building of new
facilities and the maintenance of existing facilities. The construction
program is in direct support of the military operations and operating
requirements of the military services for the various defense missions.

Although the U.S. military bases constructing projects is a small part
of the expenditures U.S. military defense budget, it is the
mission of a great deal of public concern. These concerns, military
construction contracts are subjected to critical analysis both locally
and nationally. The Wall Street Journal recently reported:

> "Defense Secretary Caspar W. Weinberger is going to give military
> construction industry an earful [sic] when he joins corporate
> builders, bankers and other officials. ...[T]he [unintelligible]
> is really responsible for [unintelligible] cost overruns and
> delays on the base building program."[2]

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[1] U.S. Congress, Senate Committee on Appropriations, Military
Construction Appropriations, 1983, 97th Cong., 2d Sess., 1982,
S. Prt. 97-[illegible], p. 2.

[2] Department of Defense, Office of the Inspector General Department of Defense
Construction, Program for Improvement in Planning, Programming [illegible]
of Construction Projects for Contracting and Execution, by Thomas
Fitzgerald, Director, Logistics and Communications, Washington, D.C., 1982,
p. 1.

[3] Secretary Weinberg of the Pentagon, Defense of the Budget, The Wall
Street Journal, May 1981, Washington, D.C., p.C. Department of Defense
Office, Program Report, p. 2.

[4] The Wall Street Journal, August 31, 1982, p. 1.

Statements such as this help to generate the interest of the average American taxpayer with the resultant close watch by Congress over the general management of the construction programs. Concern has been shown within Congress as to the general effectiveness of the present organization structure and construction program management within the Department of Defense.[5]

The effectiveness of the internal Defense Department organization and procedures to perform the tasks contributing to policy planning depends to a degree upon the adequacy of the government-wide planning structure. The strategic concepts and plans of the military forces must be effectively tied into overall national strategy, and the programs to implement Defense Department responsibility within the national strategy must be geared to budget policies and to the budgeting cycle. Military plans and programs are valid to the extent that financial means are made available for their implementation.

The management of the military construction category is accomplished primarily through the techniques of financial management and is geared to the budgeting process. It is subject to political pressures, involved in economic issues, and is a major area of command and management within the defense establishment.

This thesis is directed towards an examination of the current status of the basic controls for management and their applications within the Department of Defense in the category of military construction. The purpose of this examination is to identify the established framework

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[5] Military Construction Appropriations Bill of 1967, op.cit., p. 13.

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[3] Military Construction Appropriations, FY 1967. Op.cit. p. 81.

within which the planning, allocating, accounting and reporting for military construction is to take place. In conducting this examination of the military construction process, the Office of the Secretary of Defense has been the focal point since, in the words of President Eisenhower:

> "No function in any part of the Department of Defense or in any of its component agencies is to be performed independent of the direction, authority and control of the Secretary of Defense."[6]

Particular emphasis is placed on the directive guidance provided to the military departments by the Office of the Secretary of Defense for the execution of the financial management of the military construction programs.

Congressional influences and military department traditions and practices play important parts in the military construction process. An examination of that process must recognize those roles but this investigation is primarily concerned with how the Secretary of Defense has provided that he exercise direction, authority, and control over the military construction program. The approach used is a survey of the announced management doctrine and management practices within the Department of Defense.

An overview of the field of military construction is presented in Chapter I. The different areas of new construction which are not specifically classified as military construction are examined. A brief description of the four excluded areas helps to clarify, by the differences implied or expressed, the scope of what is managed in the military construction category. Chapters II and III examine the

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[6] William R. Kintner, Forging a New Sword, (New York, Harper Brothers, 1958), p. 46.

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[illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible]

management doctrines established by the Secretary of Defense and how these doctrines are expressed in the organization and functioning of the military construction portion of the Office of the Secretary of Defense. Chapter IV examines the system and management control of the military construction process throughout the Department of Defense by the Office of the Secretary.

The military construction process is not a subject which has captured the fancy of authors in the way some of the more glamorous military topics have. The term "military construction" is rarely found in literature other than in official government documents. A few of the rare secondary sources of information pertaining to military construction were researched and have been cited herein, but most of the data for this study were obtained from laws, records of hearings before Congressional committees, military documents, and publications. Some interpretations presented are based upon the author's observations and participation in the military construction process during two budget formulations while on the staff of the Chief of Naval Operations. In those instances where interpretations differ from established practices or procedures, they have been supported by observation or interview with military and civilian personnel who are involved with the "actual practice" of the process.

CHAPTER I

THE NATURE AND SCOPE OF MILITARY CONSTRUCTION

Within the Department of Defense, the term "military construction" represents all acquisitions of land and purchase or construction of buildings and the structures and facilities known as real property. This category is comprised of barracks, training buildings, aircraft runways, ship piers and other similar items. It includes both new construction and work on old construction such as alterations, additions, conversions, and replacement of existing facilities, but not maintenance and repair of facilities. A military construction project includes all types of equipment which may be part of real property structures such as air conditioners, but not included are equipment for production activities or other movable equipment installed in these structures.[1] Excluded are items such as installed machine lathes.

There are areas of new construction specifically excluded from the defense establishment management classification of military construction but which do relate to military readiness. The excluded areas are:

> Construction defined as an integral part of contracts for procurement and production.

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[1] DOD Directive 7040.2, p. 3.

Construction financed under appropriation for research and development.

Construction financed from appropriations for operations and maintenance.

Construction for civil defense.

Each of these excluded areas are financed, as indicated, under separate appropriations for their specific purposes and are managed within these categories. The separation of the categories is in accordance with the method used by Congress to provide funding based in terms of the type of work or services performed. All budgeting and financing for defense programs and functions comes under the following types of funds: operation and maintenance, military personnel, procurement and production, research and development, civil defense, and military construction.[2] Construction directly related to the other categories is not included in the military construction area.

Although this thesis is primarily concerned with military construction per se, each of the above listed exclusions will be briefly described to clarify what is included in the military construction process.

Military construction is one of the major areas of command and management within the defense establishment. It is a separate and distinct classification so far as financial expenditure is concerned, and as such, plays an important part in the total defense effort. It is managed by a clearly separate system with a specific financial

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[2] Budget in Brief, Fiscal Year 1967, op.cit., p. 66.

management system and is distinctly under Congressional interest and influence.[3]

The funds required for military construction are provided by appropriations made specifically for that purpose and assigned to individual construction projects in the annual military construction appropriations act. Based on long-standing rules of Congress, construction programs are handled through a process of hearings for justification and legislative authorization as well as hearings for justification of an appropriation act.[4] Authorizations and appropriations are provided for individual specifically designated projects and are not interchangeable without Congressional approval. That is to say, in order to change location, size, dollar value, or in any other way, an approved project requires specific permission from Congress. The legislative phase of the military construction process is therefore likely to be very slow and inflexible. There are provisions which allow for a degree of responsiveness and flexibility to construction requirements which could not have been programmed ahead of time. The exceptions to the normal processes are reviewed later in the paper.

Construction Defined as an Integral Part of Contracts for Procurement or Production

The Department of Defense, in attempting to abide by the intent of Congress to fund all construction projects through the Congressional authorization process, states in reference to providing facilities for industrial functions (procurement or production of supplies and equipment):

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[3] Department of Defense, Financial and Accounting Procedures in the Area of Appropriations for Military Construction (Washington, D.C., U.S. Government Printing Office, January 1960), p. 1-4.

[4] Elias Huzar, The Purse and the Sword, (Ithaca, New York: Cornell University Press, 1950), p. 224.

> "1. Use of Funds for Military Construction. Procurement funds will generally not be used for construction of buildings and structures which are Government-owned, Government-operated military establishments. Such facilities should be funded from military construction appropriations. . . ."[5]

The Department of Defense Directive concerning Industrial Facility Expansion and Replacement (4275.5) also establishes that it is not economically feasible for the Government to construct and maintain, in advance, all of the industrial facilities which might be needed in the event of war. In addition, it is recognized that not all peacetime industrial needs of the defense establishment can be met due to political and economic pressures of a peacetime environment. President Eisenhower described the type of pressures which exist in this environment when in 1953 he said:

> "The cost of one modern heavy bomber is this: a modern brick school in more than 30 cities. It is two electric power plants, each serving a town of 60,000 population. It is two fine, fully equipped hospitals. It is some 50 miles of concrete highway."[6]

Hitch and McKean in 1960 highlighted these pressures when they wrote that budget decisions between defense and nondefense expenditures depend greatly upon the unarticulated preferences of Congressmen and voters.[7]

Industrial facilities are defined as the means by which (plant and plant equipment) supplies and equipment are produced, procured and maintained. The commitment of the Defense Department to ownership is summarized as follows: The Department of Defense will (1) support a

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5 Department of Defense, Office of the Secretary of Defense, Industrial Facility Expansion and Replacement, DOD Directive 4275.5 (March 13, 1964), par. VI I.

6 Eisenhower, Dwight D., "The Chance for Peace", an address reprinted in The Department of State Bulletin, April 27, 1953, p. 600.

7 Charles J. Hitch and Roland N. McKean, The Economics of Defense in the Nuclear Age (New York: Atheneum, 1965), p. 29.

national industrial base responsive to peacetime and wartime requirements. . . . The industrial base, consisting of both government-owned and contractor-owned facilities, will be considered as necessary to support the approved forces; and, (2) where plant expansion is required to perform Defense contracts, it will normally be accomplished through increase in contractor-owned facilities. Provision of new government industrial facilities to a contractor will be held to an absolute minimum.[8]

Within the directive the conditions of the absolute minimum are described to mean that provision of a facility is required to obtain the results of a contract or provision of an existing facility for private use will result in substantial savings to the government.

Congress, when considering an industrial type of facility, provides the funding for the area of construction as part of the procurement appropriation. This is done to provide the necessary degree of flexibility, efficiency, economy and effectiveness in expanding the private industrial base (plant) to be responsive to government demands. Since these funds are the result of a different appropriation, they are not part of the military construction management process.

Construction Financed Under Appropriations for Research and Development

Under the military construction appropriation, Congress annually provides funds for facilities for research and development to support advanced research and weapons development for strategic, offensive and defensive systems as well as various other research programs.[9]

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[8] DOD Directive 4275.5, op.cit., par. V A.

[9] Department of Defense Extract, The Budget of the United States Government, Fiscal Year Ending June 30, 1967, p. 337.

In addition to research and development facilities which are part of the military construction management process, some construction is funded and managed as an integral part of the research and development program. It is not the purpose here to investigate this program in depth. However, it is felt that a general description of what construction is encompassed by the Department of Defense research and development program should be discussed here.

The Department of Defense maintains as its ultimate objective that the financing of all costs of military construction programs will be under the appropriations for that purpose. In general, the determination as to how the financing shall be requested of Congress is based on the cost-benefit analysis bearing on the specific research and development program being considered. The fact that there is a choice in the method of funding stems from a lack of specific definitive intent within the law covering construction and research and development contracts:

> "A contract of a military department for research and development, or both, may provide for the acquisition or construction by, or furnishing to, the contractor, of research developmental, or test facilities and equipment that the Secretary of the Military department concerned determines to be necessary for the performance of the contract . . ."[10]

Based on this section of the law, it is up to the discretion of the Secretary of Defense when to incorporate construction into research and development contracts.

Specific reference to this section of the law is made in the annual Department of Defense Appropriation Act which provides the needed funds for such projects. The standard statement is:

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[10] U.S. Code, Title 10, Sec. 2353(a).

"During the current fiscal year, appropriations available to the Department of Defense for research and development may be used for the purpose of Section 2353 of Title 10, United States Code, and for the purpose related to research and development for which expenditures are specifically authorized in order appropriations of the service concerned."[11]

Construction Financed From Appropriations for Operations and Maintenance

In fiscal year 1966, of the funds appropriated for the operations and maintenance of the military forces, $673 million were made available specifically for the maintenance of real property facilities.[12] The fact that a portion of these funds are used for bona fide construction projects is pertinent to this discussion since there has been Congressional comment in this area concerning the Department of Defense management of construction funding. Congressman Sikes, Chairman of the Subcommittee on Military Construction Appropriations, of the Committee on Appropriations, stated in a report:

"The problems in the construction effort in South Vietnam, as they relate to coordination and management, point up the necessity for an in-depth study by the Department of Defense of the construction organization best suited to meet the Defense needs of this country. The Committee calls upon the Department to take steps to initiate such a study, which will give consideration to construction requirements of the Department both in normal peacetime activities and during the exigencies and emergencies of war."[13]

There are three reasons for funding some construction from the operations and maintenance appropriations. One reason is the close

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11 U.S. Congress, Department of Defense Appropriations, 1966, Public Law 213, 89th Cong.,1st Sess., 1965, Title IV, Sec. 620.

12 Department of Defense Extract, op.cit., p. 293-297.

13 U.S. Congress, House, Committee on Appropriations, Military Construction Bill of 1967, 89th Cong., 2d Sess., 1966, H. Rept. 2020 to accompany H.R. 17637, p. 13.

relationship between military operations and necessary construction. Where a need exists in the combat area, there must be a capability to fulfill the construction needs for, let us say, a hospital or an airfield. There can be little argument that this construction is part and parcel of operations. It has been recognized to be an integral part of military operations and is correctly funded and managed as such.

Closely akin to construction in active combat operations is construction which is necessary for troop support during operational type training. In areas of non-combat operations, there is construction which is directly in support of troop activities such as training and related maneuvers. The close relationship of such activity to military operations makes charging such construction funding against operations appropriations acceptable. In this case, as in the preceding, the majority of the work is done by troop units; that which is not troop work falls under the responsibility of service force personnel. Different titles for each of the military departments refer to these personnel as the Public Works Officer (Navy), the Base Civil Engineer (Air Force), and the Post Engineer (Army). Generally, the work performed by these units is upkeep and maintenance work which is correctly within the intent of operations and maintenance funding.

The base maintenance engineering departments are given by law, with approval of the Secretary of Defense, the authority to undertake limited construction projects. These are relatively small projects and this authority is granted to reduce the command-management effort normally connected with construction authorization and funding. These construction projects are referred to, managed and funded as a distinct category -- minor construction.

In the interest of flexibility and to keep preparatory costs such as for planning and design more in line with the size of projects included in this category, the Congress has allowed that projects having a price of not more than $25,000 may be funded from operations and maintenance appropriations. This authorization, however, limits the use of funds in this manner by requiring that projects costing more than $15,000 which are known of in sufficient time for normal submission in the military construction process will be requested in that manner.[14]

The law further provides that a construction project because of an existing or developing condition, which has arisen suddenly, and cannot be delayed for inclusion in future military construction legislation and costs not more than $200,000, be classified as "urgent". Such "urgent" minor construction projects costing between $15,000 and $25,000 may be funded either from military construction appropriations or from the operations and maintenance appropriations. The projects costing between $25,000 and $200,000 may only be funded by military construction appropriations.[15]

Minor construction projects are deemed too small to require description, justification, review and authorization project by project at the Congress, but a report on all minor construction is made to the Congress semi-annually.

Although it has been shown that minor construction projects are funded from two separate appropriations, it is a fact that minor construction is a distinct funding and management classification. Since some part of the minor construction program is funded from the military

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14 U.S. Code, Title 10, Sec. 2674.

15 Ibid.

construction appropriation, the funding of the two management entities is closely related. The interrelations and inter-actions of these two systems are discussed later.

Construction for Civil Defense

This last link of the Defense Department construction chain was forged in July of 1961 when, by executive order, the Office of Civil Defense was created and established as a part of the Department of Defense effective August 1 of the same year. The office provides for the operation, maintenance and continuing development of the nationwide emergency warning system and provides for the development of a nationwide inventory of fallout shelters and plans for their use.[16]

An expressed national desire for greater defense efforts in the civil sector has resulted in substantial annual expenditures in this Defense Department construction area. During Congressional hearings concerning civil defense construction expenditures, the following totals were given: $23,452,758 in fiscal year 1964; $41,530,000 for fiscal 1965; in fiscal year 1966, $95,000,000 was the amount of the Defense Department Civil Defense budget, but only $34,000,000 was appropriated by the Congress.[17] The large dollar amounts provided show that it is an important and distinct management category within the Department.

The funds required for civil defense construction projects are not appropriated under any of the earlier mentioned categories but rather receive Congressional review and sanction through the Independent Offices

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16 U.S. Office of the President, Executive Order 10952, Assigning Civil Defense Responsibilities to the Secretary of Defense and Others, July 25, 1961.

17 U.S. Congress, Independent Offices Appropriation Act, 1966, Public Law 128, 89th Cong., 1st Sess., 1965.

[illegible] [illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible] [illegible]

Appropriation Acts. As a result of this difference, projects which fall in this area of construction are not managed and controlled as part of the other programs in the planning, programming, and budgeting process of the Department of Defense.

In execution there is, however, close defense establishment integration and much of the civil defense program is accomplished by the departmental operating construction agencies.

The Navy Facilities Engineering Command (formerly the Bureau of Yards and Docks) and the Army Corps of Engineers have jointly accomplished the annual program of providing fallout protection construction for the National Emergency Broadcasting System. This system consists of privately-owned stations cooperating to provide facilities for emergency communications to the federal, state, and local governments. The Corps of Engineers is responsible for the continuing survey, classification, and identification program for public shelters in small structures. The two operating construction agencies are reimbursed for the costs of the construction by the transfer of funds from appropriations made available to the Office of Civil Defense for shelters.[18]

To further support the civil defense program, the Office of Civil Defense uses other agencies both private and government in research and design for its construction requirements. The Stanford Research Institute along with the United States Naval Radiological Laboratory are acting for the Office of Civil Defense in directing far-ranging studies by various subcontractors on applied research and exploratory development in support of shelter design, construction, management and use.[19]

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[18] U.S. House of Representatives, Subcommittee of the Committee on Appropriations, Hearings, Independent Offices Appropriations for 1966, 89th Cong., 1st Sess., 1965, p. 679-680.

[19] Ibid., p. 683.

Therefore, due to its particular and specific purpose, and in spite of its close relationship to military construction, the Civil Defense construction program is not part of the military construction process. Funds are authorized and appropriated not on a detailed line-item/project basis, but rather on a broad objective (shelters) basis. It is, therefore, managed separately from the military construction management system. The Congress requires that the intent of having all facilities which are built for Federal ownership be subject to the specific authorization and appropriation process be adhered to and showed this in the 1966 appropriation. A project requested by Civil Defense for regional operational centers was approved and appropriated in the full amount, but since the project was to provide facilities (not just shelters) for Federal Government ownership, the funds had to be transferred to military construction appropriation for execution by the Department of Defense.[20] Therefore, although the construction was managed up to appropriation outside the military construction system, for execution it has become part of the military construction management system.

The discussion to this point has focused on the fact that for military construction the Congress has established a completely separate area of planning and control through separate legislative authorization acts as well as separate appropriations. It has also been shown that other Defense Department areas of construction are closely related and in some ways interact with the military construction process in providing for national defense. It is, however, the intent of this study from here on to concentrate on that specific area of management pertaining to military construction.

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[20] U.S. Congress, Public Law 128, op.cit., p. 684.

CHAPTER II

THE AUTHORITY, DIRECTION AND CONTROL OF THE SECRETARY OF DEFENSE OVER MILITARY CONSTRUCTION

As the top man in the military establishment, the Secretary of Defense is ultimately responsible for every phase of the Department of Defense's functions. The management of military construction is no exception, but in addition to this inferred responsibility, the Secretary of Defense has been specifically charged to oversee this program as follows:

> The Secretary of Defense shall maintain direct surveillance over the planning and construction of public works projects by the military departments. The Secretary shall keep currently and fully informed of the status, progress and cost of, and other pertinent matters concerning, these projects.[1]

The overseeing or maintaining of surveillance over a program such as the military construction program connotes the operation of a command-management program of considerable magnitude. As was shown in the preceding chapter, this program is complicated and subject to much interaction both within the defense establishment and from outside the department. It is the purpose of this chapter to investigate how the Secretary of Defense, within his own office, manages this process.

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[1] U.S. Code, Title 10, Sec. 2661.

Management Doctrine

In The Principles of Organization, James D. Mooney holds that "doctrine means the definition of the objective". Mooney further describes that for any operation or organization to be a success it is necessary to establish the doctrine from the outset.[2] By establishing a doctrine, the highest officials are stating their participation in the overall management of the organization and, at the same time, are establishing their objectives for the organization. Based on these concepts, it serves as a good starting point to carefully appraise top management's objectives in the military construction management process and to appraise also how top management is involved in the total process.

Due to the complex and changing nature of this program, there is no one well defined and finely drawn set of objectives regarding the management of the military construction process. In order to establish what seems to be the standard policy or doctrine, one must search through the myriad of directives issued and decisions rendered at the Secretarial level. Guidance given annually concerning budget submissions and budget reviews provide indications of doctrine as do public statements and statements made for the record at Congressional Hearings. An oft-heard phrase which seems to persist in all of the mentioned sources is "to get the most bang for a buck."[3] This is an accepted and a "catchy" way of referring to cost effectiveness analysis which is a concept that was introduced by the present top management and appears to be the

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[2] James D. Mooney, The Principles of Organization, (New York: Harper and Brothers, 1947), p. 10.

[3] "Survey of the Management Revolution in the 1960s in the Department of Defense" (Office of the Assistant Secretary of Defense, Comptroller, September 1966), p. 7 (mimeographed).

principle objective of that management. A more precise statement of cost effectiveness, in terms of construction, would be to provide the needed facilities at the best possible cost to provide the most effectiveness in accomplishing the assigned mission.

The involvement of top management, that is, the Secretary of Defense and his immediate staff, in the active management of the military construction process is an important point of focus. Although he was speaking of management in general, the Secretary of Defense stated:

> "I strongly believe in the pyramid nature of decision making and that within that frame, decision making should be pushed to the lowest level in the organization that has the ability and information to apply approved policy.
>
> "We are now giving more clear statements of what policy is with the idea that lower levels in the pyramid will then be able to apply it consistently and intelligently to particular sets of circumstances."[4]

It would seem from this statement that it was the intention of the Secretary of Defense that he and his staff would function only as policymakers and reviewers of lower level decisions. The implication is that the necessary information and abilities for competent decision making may be found at a lower level than that of Secretary of Defense. It is also inferred that rather definitive guidance will be provided to facilitate lower level decision making.

The Congress has always been very interested in Defense Department management. This interest has not lessened with the introduction of the planning, programming and budgeting systems and, as a result, Congressional hearings provide some insight concerning the Secretary

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[4] Defense Decision Making as McNamara Sees It", Armed Forces Management, November 1963, p. 16.

of Defense's management policies. When questioned at an appropriation hearing about centralization of control, Mr. McNamara replied:

> "While I believe that unified planning, programming and decision-making are indispensable to the effective management of the defense effort, I am equally convinced that the actual operation of the program should be managed to the maximum extent possible, on a decentralized basis. The defense effort is entirely too big, too complex, and too geographically dispersed for its operation to be managed from a single central point. Thus, the organization and management of the Defense Department must be based on the principle of centralized planning and decentralized operation."[5]

The above remarks were made concerning management in general and not about management of the military construction process. However, it may be assumed that the basic approach to management of the Department of Defense will also be the approach which is applied to the military construction area.

Supplemental to these comments, of what seems to be the policy of the Secretary of Defense in management, is the following excerpt from remarks made by a man involved very closely with the field of management in military construction. Mr. Robert C. Moot, Deputy Assistant Secretary of Defense (Logistic Services), referring to management system in the top echelons of the Defense Department has said:

> "Before discussing the system itself, let me start by mentioning some of the major elements of Mr. McNamara's management philosophical concept which have become evident in the past few years.
>
> "First, and certainly of primary importance, is the conviction of the Secretary of Defense that good management requires a well-organized and functioning decision-making process which expresses decisions in explicit and quantitative terms.

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[5] U.S. Congress, House, Subcommittee of the Committee on Appropriations, Hearings, Department of Defense Appropriation for 1964, 88th Cong., 1st Sess., 1963, pp. 192-193.

> "Next, it is Mr. McNamara's belief that important questions should be addressed by the top level management officials in the DOD and to this end he has required that the Secretarial level and Heads of Agencies become involved and assume responsibility for making recommendations to him and, in turn, only he and his deputy can make important decisions. By this means, he attempts to assume that problems of significant import receive management attention of significant import.
>
> "In Mr. McNamara's view, a manager's role in the enterprise should be positive rather than passive in nature. A good manager should continuously, through inquiry and study initiation, seek ways and means of improving operations with no more or less relative application of resources."[6]

The Assistant Secretary of Defense (Administration), Mr. Solis Horowitz, whose office is the formal Department of Defense focal point for organization and management procedure, summarizes the Secretary of Defense concept of management in this way:

> "To sum up, Mr. McNamara believes that by law, he is responsible for running the Department of Defense. He believes that the ultimate decisions must be made by himself, based upon the best advice, military and civilian, that he can get. . . . He believes that once the policy decision is made, operations must be carried out by those who are operationally responsible, but they must be carried out in full conformity with the policy decision made."[7]

Applying these remarks to the management of the military construction process there seems to be an implication that all decisions in the planning and programming phases are made at the Secretarial level since all of these are important decisions. Furthermore, in the execution or operating phase, sufficient direction from above shall be provided to allow operating choices to be made at the operating level.

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[6] Robert C. Moot, "Management Projects of the Secretary of Defense", an address to the Twelfth National Conference of the Armed Forces Management Association, in, The Journal of the Armed Forces Management Association, Vol. 2, No. 5, 1965, p. 9.

[7] Solis Horowitz, "Secretary McNamara's Concept of Management", The Armed Forces Comptroller, Vol. IX, No. 1, March 1964, p. 36.

It appears that within the Office of the Secretary of Defense the expressed emphasis seems to be on the following functions associated with the management process: Decision making on key issues; directing the performance of subordinates toward chosen goals through policy formulation; organizing for task accomplishment; planning the courses of action by which objectives may be achieved; programming the necessary resources to accomplish the chosen course of action; and controlling, through performance measurement, the progress toward selected objectives.

A study of Department of Defense Directives and Instructions pertaining to military construction provides an explanation of how the Office of the Secretary of Defense either performs or delegates the performance of necessary management functions. As a result of such a study, five areas of management activity can be identified and investigated to determine how the Office of the Secretary of Defense involves itself in the management of military construction. The five areas of management activity are:

1. Policy formulation concerning what is military construction.

2. Formulation of design standards, safety features, type and quality of materials to be used.

3. Formulation of financial management procedures.

4. Standardization of the administration of contracting procedures.

5. Policy formulation concerning responsibilities of the various Defense agencies, including the military departments.

What is Military Construction?

As was shown in Chapter I, not all construction done by or for the Department of Defense is covered by the term "military construction". It is, therefore, necessary for the Office of the Secretary of Defense to be definitive about what is included in the classification "Military Construction". The numerous instructions and directives relating to the field have been an attempt to provide guidance to those involved with the complex process. The titles included in the bibliography give an indication of how difficult the task has been of explaining what is intended to be included in the category of military construction. Many of the directives and changes to directives have been necessitated through the efforts of some managers attempting to "get around" the intent of the law or regulations. Congressional interest in this field is very intense and there have been investigative hearings before the Committee on Government Operations of the House of Representatives regarding an inquiry into situations where abuses had been uncovered. Facilities have been built in excess of appropriated funds, with disregard to designated specifications and in some cases, without any authority at all. The principle fault which seems to have been noted most often in these hearings centered on questions of definition.[8]

In an effort to prevent interpretation of a term or criteria from being manipulated to satisfy individual or local requirements, the basic directive containing definitions has been modified two times.[9] There

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[8] U.S. Congress, House, Committee on Government Operations, Twelfth Report: Military Construction Projects, Report No. 916, 88th Cong., 1st Sess., 1963.

[9] DOD Directive 7040.2, January 18, 1961; change 1, March 26, 1962; change 4, March 6, 1964.

have been additional changes to this directive. However, changes 1 and 4 were the only ones pertinent to the subject of the definition of terms.

A study of the changes has shown that it was not an effort in any way to change the meaning of the directive. The changes were made in an effort to insure that the prescribed process be adhered to in obtaining authorization and appropriation for military construction; that is, Congress was not be left out of the decision process. In addition, the intent of the changes were to make the control of the military construction process by the Secretary of Defense more thorough and more effective. The authority of the current directive is stated quite frankly and simply in an effort to be precise and not to be open to individual interpretation. Under "Policies and Procedures", the present directive states:

> "All determinations as to whether projects shall be funded under military construction appropriations shall be based upon the criteria contained in this Directive and its glossary of terms regardless of the terminology used to describe the project."[10]

Farther on in the directive, it is established that:

> ". . . construction programs will be presented, reviewed, adjusted and approved through established command and staff channels, including the Office of the Secretary of Defense and Bureau of the Budget before submission to the Congress. . . ."[11]

Congressional participation is referred to with the words:

> "Except as they may be changed otherwise by the Congress, the following policies with respect to legislative authorizations will be assumed:

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[10] Ibid., p. 3.

[11] Ibid.

(a) Specific legislative authorizations will be required for work to be performed under major construction programs. General legislative authority will be provided with respect to other construction programs."[12]

Construction Standards

The Office of the Secretary of Defense has issued forty-seven directives and/or instructions which provide standards of construction. Thirty-seven of these list space allowances for various facilities (such as bachelor living areas, recreational facilities, chapels, offices, and storage spaces), provide types and qualities of materials to be used and specify minimum design standards for healthful conditions. Four of the directives deal with criteria for construction of protective shelters considering possible effects of nuclear weapons. Six directives are concerned with design in the matter of safety such as the specification of a safe distance of a building from an explosive hazard.

A summary of what is to be accomplished through these directives is best stated in the purpose given in one of the directives:

"To set forth the basic construction standards and criteria for structural adequacy, space, durability, and design for permanent-type facilities at military establishments."[13]

These standards generally are not subject to exception. When exceptions may be authorized without specific approval of the Secretary of Defense, the approval authority for exceptions is specifically delegated. An example of such delegation of exception authority, which has

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[12] Ibid., p. 4.

[13] Department of Defense, Office of the Assistant Secretary of Defense, Installations and Logistics, Standards and Criteria for Construction -- Permanent-Type Administrative Facilities, DOD Instruction No. 4270.11, March 23, 1955.

been a topic in recent years, concerns the providing of air conditioning. The current instruction,[14] which is relatively recent in origin, outlines the conditions which must be met to warrant the installation of air conditioning. In addition, it provides that exceptions to the criteria may be approved by the Departmental Secretary (Army, Navy, Air Force, etc.); further, it is provided that the exception authority may be redelegated to the departmental assistant for construction. The requirement is established along with the authority, that any approved exceptions are to be reported to the Assistant Secretary of Defense (Installations and Logistics) as soon as action has been taken. The requirement for instant reporting guarantees effective control by the Office of the Secretary of Defense.

As well as issuing guidance in the form of directives and instructions pertaining to construction standards, the Office of the Secretary of Defense is continually involved in seeking improvement in the management of and in the direction of construction activities. Paul R. Ignatius, Assistant Secretary of Defense (Installations and Logistics) in his testimony at justification hearings before the House appropriations subcommittee for fiscal year 1967, explained:

> "The comprehensive system of Department of Defense construction criteria is being continually reviewed and improved. During the past year it has been expanded to incorporate guidance in a number of new fields. Included in this new guidance is a Department of Defense directive which implements national policies in the area of environmental pollution control, and establishes a committee to assure effective administration of this policy.

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[14] Department of Defense, Office of the Assistant Secretary of Defense, Installations and Logistics, Air Conditioning, Evaporative Cooling, Dehumidification and Mechanical Ventilation, DOD Instruction No. 4270.7, March 8, 1965.

> "Under an architect-engineer contract, a manual is now being developed to consolidate all of our existing criteria which are presently issued in the form of numerous separate instructions and other media . . .
>
> "Work is proceeding on the development of standard Department of Defense definitive designs for repetitive facilities, which will provide greater comparability of construction between the using services. Design for two types of these facilities have been promulgated and several more are about to be completed."[15]

Repetitive facilities referred to by Mr. Ignatius in his testimony are in the categories of bachelor officer and enlisted quarters, enlisted dining facilities, family housing and various community support facilities. The assumption, by the Office of the Secretary of Defense, of the freedom of choice of quality and style in these areas is a significant change to what has been the situation. In the past, each of the departments has utilized standard designs for these types of facilities which had to conform to Department of Defense criteria, but which nevertheless reflected the individual requirements of the using Department. Now the military departments have the choice of (1) where to locate the facility at the receiving installation and (2) how to best provide the specified facility within the appropriated money limitations. The Office of the Secretary of Defense now exercises the choice in quality and style of facility which the military services used to exercise.

Financial Management

Within the Office of the Secretary of Defense an objective of financial management is to aid in achieving maximum military effectiveness

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[15] U.S., Congress, House, Subcommittee of the Committee on Appropriations, Hearings, Military Construction Appropriations for 1967, 89th Cong., 2d Sess., 1966, p. 9.

the lowest cost. The performance of this assignment is accomplished through the following functions: budgeting, funding, accounting, finance, reports and statistics, and auditing. These are the portions of a closely controlled financial system for military construction overseen by the Assistant Secretary of Defense for Financial Management (Comptroller).[16]

It is the responsibility of the Comptroller to see to it that the intent and the letter of the law are adhered to in the use of public funds for construction. The Comptroller must also be concerned with the receipt of sufficient information to assist the Secretary of Defense in the management control of the Department of Defense. Indeed, the importance of this last remark can be highlighted by a reference to the definition of management control given in a recent publication by Dr. Robert N. Anthony, Assistant Secretary of Defense for Financial Management (Comptroller):

> "Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives."[17]

There is in the directive system a stated policy in support of this responsibility of the Comptroller which reads:

> "It is desired that the appointment procedures delegate maximum responsibility to the Military Departments and at the same time maintain such controls as are necessary to properly discharge the duties and responsibilities of the Secretary of Defense. It is incumbent upon this office and the Military

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16 Department of Defense, Financial and Accounting Procedures in the Area of Appropriations for Military Construction, (Washington, D.C., U.S. Government Printing Office, January 1960), p. I-12.

17 Robert N. Anthony, Planning and Control Systems, A Framework for Analysis, (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1965), p. 27.

> Departments that all measures be taken to insure that the construction program will secure, to the maximum extent possible, those items which were justified to the Congress and which remain essential to the accomplishment of assigned missions."[18]

The authorization to obligate and expend funds which have been appropriated for a specific purpose is passed by Congress to the user or operating unit head in the field via the Secretary of Defense and the military departmental chain of command. This process is the apportioning of funds and facilitates the required departmental level auditing function.[19] This is not to say that all of the earlier mentioned functions of the financial management system are not present throughout, because they are. However, auditing of the system is needed at the department level to provide the necessary reports which must be provided to maintain the prescribed degree of control over the system from the top.

Contracting for Procurement

Procurement policies are established with the written law and are stated in basic concepts:

> ". . . purchases of and contracts for property and services covered by this chapter shall be made by formal advertising in all cases in which the use of such method is feasible and practicable under the existing conditions and circumstances."[20]

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[18] Department of Defense, Office of the Assistant Secretary of Defense, Comptroller, Apportionment of Public Works Fund, DOD Directive 7150.3, May 29, 1957, IV A.

[19] Department of the Navy, Bureau of Naval Personnel, Financial Management in the Navy, NAVPERS 10792-A (March 1962), p. 84.

[20] U.S. Code, Title 10, Sec. 2302.

The Secretary of Defense in centralizing all procurement for the Department of Defense has established procurement policies and procedures which are to be adhered to in all contracting including that which pertains to military construction.

The Department of Defense contracting for procurement policy has been coordinated and compiled in the Armed Services Procurement Regulations. These regulations apply to all purchases and contracts made by the Department of Defense.[21]

The regulations prescribe contract forms, advertising procedures and rules, negotiation rules and other factors pertinent to the business of government procurement.

The military departments may develop supplemental instructions regarding procurement contracting, but these directives must be fully consistent with the basic regulations. To insure agreement and compliance, supplemental directives are reviewed by the Office of the Secretary of Defense. To assure compliance with established rules and regulations, periodic inspections are conducted by the Office of the Secretary of Defense.

This development has described the role of the Office of the Secretary of Defense in the management of military construction procurement contracting as one of establishing policy and of defining procedures with little if any involvement in the actual execution except through periodic field inspections.

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21 U.S. Department of Defense, Armed Services Procurement Regulations (Washington, D.C.: United States Government Printing Office, 1963), Rev. 10 April 1, 1965, Sec. 1, par. I-102.

Departmental Responsibilities

The National Security Act of 1947 established that each of the military departments was to become a part of a single defense establishment under the unified direction, authority, and control of a Secretary of Defense. Each of the departments was to retain its own Secretary but the Secretary of Defense was to provide integrated policies and procedures for the total establishment. The Secretary of Defense is charged with the responsibility to provide for more effective, efficient and economical administration in the Department of Defense.

In an effort to clearly establish the relationships within the Department of Defense, as prescribed in the National Security Act, the Secretary of Defense issued the directive stating the Functions of the Department of Defense and Its Major Components.[22] This directive (5100.1) redefines the internal relationships which exist within the defense establishment. In this directive the military departments are assigned a general responsibility which refers to military construction. Each is directed to:

> "Develop, garrison, supply, equip and maintain bases and other installations, including lines of communication and provide administrative and logistical support for all forces and bases."[23]

An earlier directive (4270.5) provides definitive responsibilities for the individual departments in these words:

> "The Departments of the Army, Navy and Air Force are responsible to the Secretary of Defense and to the Congress for the proper management of the respective Army, Navy, and

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22 Department of Defense, Office of the Secretary of Defense, Functions of the Department of Defense and Its Major Components, DOD Directive 5100.1, March 13, 1958.

23 Ibid.

> Air Force portions of public works construction programs, and for the economical use of funds appropriated to the respective departments for such public works construction.
>
> "The Department of the Army shall utilize primarily the services of the Corps of Engineers, Department of the Army and the Department of the Navy shall utilize primarily the services of the Bureau of Yards and Docks, Department of the Navy, for the design and construction of public works for their respective Departments, but each may utilize the construction organization of the other Department for that purpose where desirable. The Department of the Air Force shall utilize to the fullest extent the services of the Corps of Engineers and the Bureau of Yards and Docks for Air Force public works design and construction, except that certain projects, as provided in paragraph 3 hereof, may be designed and constructed by the Air Force under its own supervision.
>
> "The Department of the Air Force may design and construct under its own supervision (1) research and test facilities peculiar to aircraft development and (2) such other projects as may be approved by the Secretary of Defense. Prior to the initiation of the design or construction of any project which the Air Force proposes to undertake under under its own supervision (other than advance planning and design prior to statutory authorization), the Secretary of the Air Force shall submit to the Secretary of Defense for his approval (with copies to the Secretary of the Army and the Secretary of the Navy) a complete description thereof and an estimate of the cost."[24]

In essence, this quotation establishes that each military department shall report to the Congress and to the Secretary of Defense for management control of its military construction function. If there were no other definitive directives governing the management of the military construction process, the above quoted guidance would seem to provide considerable autonomy to the individual service secretaries. However, this is not the case. Earlier discussion has established the significance

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[24] Department of Defense, Office of the Secretary of Defense, Public Works Construction Responsibilities, DOD Directive 4270.5, July 11, 1965.

of Department of Defense Directive 7040.2 which has resulted in a thorough centralization of control over the planning, programming, budgeting, and reporting in the military construction management process. How the military departments perform their management functions under this highly centralized system shall be discussed more fully in a later chapter.

Summary

The purpose of this chapter has been a study of current Department of Defense directives and instructions coupled with excerpts from various statements of administrative practices and policies made by some of the important persons within the Office of the Secretary of Defense. The analysis has provided a closer look at what is the top level philosophy of management in general and toward military construction management in particular within the Office of the Secretary of Defense.

It appears that the stated philosophy accepts: that it takes a combination of administrative and legislative effort to carry out the mission of military construction; that the key to effective management is centralized policy control, decentralized operational control and adequate accountability for performance; and that general policy guidance covering both management and fiscal control should emanate from one office -- the Office of the Secretary of Defense.

The organization for military construction has both general and special features which are unique to this mission. The Secretary of Defense has chosen to provide the necessary guidance in accomplishing this mission through the realm of financial management. Within this management system, the Office of the Secretary of Defense centrally

controls, through very specific operating policy statements, the phases of the system which are; planning, programming, budgeting, Congressional justification, review and approval, funding and actual construction.

It appears that the Office of the Secretary of Defense has as its objective in the general management functions: to improve the decision making process of the Secretary, to help reduce undesirable duplication and to promote efficiency and economy through centralization of control.

CHAPTER III

OFFICE OF THE SECRETARY OF DEFENSE

At the pinnacle of the pyramid in the military establishment, the Secretary of Defense is responsible for every phase of military construction. The Secretary is the end of the line of management which begins at a construction site anywhere in the defense system. The Secretary is also the beginning of the same line, in reverse, when it carries out the legislative mandates of Congress, and the administrative policies of the President.[1]

The Secretary represents that link in the management chain which receives, reviews, evaluates, coordinates and approves or disapproves the actions, proposals and recommendations of the next lower link. The next lower link is the Secretary of each military department.

Through delegation by the Secretary, matters concerning military construction fall within the special responsibilities of two assistant secretaries of defense. One is the Assistant Secretary of Defense (Installations and Logistics). The other is the Assistant Secretary of Defense for Financial Management (Comptroller).

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[1] Department of Defense, Financial and Accounting Procedures in the Area of Appropriations for Military Construction (Washington, D.C., Government Printing Office, January 1960), p. 1-11.

Assistant Secretary of Defense (Installations and Logistics)

The Department of Defense directive which announced establishment and enumerated the responsibilities of the Office of the Assistant Secretary of Defense (Installations and Logistics) also defines the office and its functions. Department of Defense Directive 5126.22 designates the Assistant Secretary of Defense (Installations and Logistics) as a principal staff assistant to the Secretary of Defense and describes certain areas of responsibility in which the Assistant Secretary is to function as a principal staff member. There are within these areas of responsibility two which bear upon military construction specifically. These are: (1) Military construction including Reserve Force Facilities, and (2) Real estate and real property including general purpose space.[2] The area of family housing is also closely allied to military construction and within the responsibility of the Assistant Secretary but the management of that program is not covered here.

In addition to specific responsibilities for military construction, the Assistant Secretary's Office is assigned general management functions to be performed under the authority, direction, and control of the Secretary of Defense. Each of the general functions relate to the management process of military construction. The functions are:

> "Recommend policies and guidance governing Department of Defense planning and program development.
>
> "Develop systems and standards for the administration and management of approved plans and programs.

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[2] Department of Defense, Office of the Secretary of Defense, DOD Directive 5126.22, Assistant Secretary of Defense (Installations and Logistics), January 30, 1961, par. II.

"Review programs of the military departments for carrying out approved policies.

"Evaluate the administration and management of approved policies and programs.

"Recommend appropriate steps (including the transfer, reassignment, abolition and consolidation of functions) which will provide in the Department of Defense for more effective, efficient and economical administration and operation; will eliminate unnecessary duplication or will contribute improved preparedness."[3]

The guiding directive stipulates that the Assistant Secretary will not establish policy in the field of military construction. Rather, he is authorized to initiate directives to disseminate policy which has been approved and issued by the Secretary of Defense. Such directives to the lower echelon military departments must be introduced to those departments by way of the respective Service Secretaries.

The Assistant Secretary (Installations and Logistics) is authorized, by delegation from the Secretary of Defense, to act as his designee to approve or disapprove minor construction project requests in accordance with Section 2674, Title 10, United States Code.

In the Government Organization Manual, the Assistant Secretary (Installations and Logistics) is assigned the responsibility as the principal assistant to the Secretary of Defense for procurement.[4] Although, as was discussed earlier, procurement is a minor part of military construction, it is pertinent that the Assistant Secretary under the direction and control of the Secretary of Defense, is

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[3] Ibid., par. III.

[4] U.S. General Services Administration, Office of the Federal Register, National Archives and Record Service, United States Government Organization Manual, 1965-66, (Washington, D.C., U.S. Government Printing Office), 1965.

responsible for developing and maintaining the Armed Forces Procurement Regulation. It is the source of all guidance for contract procedures within the military establishment.

Assistant Secretary of Defense (Comptroller)

The National Security Act of 1947 established the Office of the Assistant Secretary of Defense (Comptroller) to be responsible under the Secretary of Defense for defense activities from the standpoint of financial management.[5]

The Defense Comptroller is concerned with military construction affairs, as with other segments of defense activities, from the standpoint of financial management. The functions which are inherent in financial management and the defense financial system are: budgeting, funding, accounting, finance, reports and statistics, and auditing. These are the tools by which financial management carries out its assignment, which is to assist in achieving maximum military effectiveness at the lowest possible cost.

The Comptroller provides guidance, direction and control under the authority of the Secretary of Defense, to each of the military departments with respect to the financial management functions enumerated above. He is particularly involved in establishing budgetary guidance to the departments and in conducting, for the Secretary, budgetary analysis and review of the budgetary submissions of each of the departments.

During Department of Defense budget review the Assistant Secretary of Defense (Comptroller) operates for the Secretary of Defense as an evaluator of proposed construction programs and their related budgets.

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[5] U.S. Congress, National Security Act of 1947. Public Law 253, 80th Cong., 1st Sess., 1947, Sec. 401.

He notes the relations of construction requirements to each other, to detect overlap and/or duplication. He relates construction requirements to programs intended to fulfill them in order to insure that the continuing requirement in fact does still exist.

This discussion of the responsibilities and functions of the Assistant Secretary of Defense (Comptroller) indicates the importance of this principal staff assistant to the Secretary of Defense in the military construction management process. The Comptroller is the focal point within the Office of the Secretary of Defense for all inputs bearing on the decision process. To realize the impact that this position has had on the whole defense establishment, it must first be realized that within recent years the major management innovations developed for the Department of Defense have been initiated by the Comptroller. Mr. Wilfred J. McNeil established a financial management control system for the department followed by Mr. Charles J. Hitch who developed the present day five-year program structure. The incumbent Assistant Secretary of Defense (Comptroller), Dr. Robert N. Anthony, has introduced the resource management system which is to be implemented on July 1, 1967.[6] Each of these changes has had an effect on the management of military construction and as the actual practice of military construction management is developed, the effects will become apparent.

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[6] "Better Ways of Doing Business in the Department of Defense", (Office of the Secretary of Defense, Washington, D.C., July 18, 1966), p. 13 (mimeographed).

CHAPTER IV

THE MANAGEMENT PROCESS OF MILITARY CONSTRUCTION

Having examined what is included in the management category, military construction, and having identified the basic organization within the Office of the Secretary of Defense for that management, the next phase to examine is the military construction process as it is conducted.

The management of the military construction process is most completely identified within the framework of the Department of Defense financial management structure. This structure is comprised of eight related and interacting functions. They are: planning, programming, budgeting, funding, accounting, statistical analysis, auditing and actual construction. During the performance of most of these functions, this process is subjected to the influence of various external forces which have an effect on the operation of the process. The forces represent a combination of administrative and legislative effort joining to assist in carrying out the mission of military construction.[1] Administratively, the Bureau of the Budget assists in the formulation of

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[1] Department of Defense, Financial and Accounting Procedures in the Area of Appropriations for Military Construction (Washington, D.C., U.S. Government Printing Office, January 1960), p. I-7.

the budget submissions and in the apportionment of funds.[2] Legislatively, the Congress must authorize construction and appropriate the funds with which to accomplish the approved projects and the General Accounting Office assists the Congress in maintaining a check on the administration of authorized and appropriated programs.[3]

This chapter will be an investigation of the eight functions comprising the financial management structure and how these functions help to fulfill the military construction process. The examination shall also include the influences brought to bear by the three noted exogenous factors: Congress, Bureau of the Budget and the General Accounting Office.

Planning

Military construction is accomplished upon the basis of plans and programs in terms of projects. The basic objective of planning is to provide the facilities necessary to support the operating forces. Presented another way, planning establishes goals and objectives, the strategies and tactics designed to attain them and a statement of requirements, such as forces, weapons systems and facilities necessary to implement the strategies. Basic guidance for planning in military construction is provided by the policy and procedures section of directive 7040.2:

> "Major construction programs in terms of individual projects and installations (or other designated department-wide groupings of projects, consistent with current assigned missions) should be prepared annually for legislative authorization requests. Each annual program should consist

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[2] Jesse Burkhead, Government Budgeting (New York: John Wiley and Sons, Inc., 1956), p. 88.

[3] Ibid., p. 104.

> of the most urgent items in a realistic development plan of construction requirements, time phased for annual legislative authorization, including, to the extent practicable, planned construction requirements for four years beyond the year for which this annual program is presented. Estimates for projects proposed for authorization in future years, beyond the budget year, will normally be based only upon current experience for similar projects."[4]

Under this directive, the services have developed a principle for the orderly and comprehensive development of the need for physical facilities relating to an assigned mission, at a particular place, usually an installation, called master planning. Master Planning is normally conducted at each installation subject to guidance, direction, and review from the next higher level.

Although some have other names, master plans have been prepared for just about every military installation within the defense establishment. These plans serve as the source of data on facilities for year to year construction programming. Figures 1 and 2 are provided to show the types of information provided in master plans. The information in the figures is not related.

Since all planning within the Department of Defense is designed to assist the functions of the Five Year Defense Plan (FYDP)[5] installation plans are prepared with a forward look of five years. These plans are, as stated above, tied to the mission for which it is prepared, and changes with the conditions under which the mission is carried out. Master plans are not, therefore, static but must remain dynamic, subject to review and revision annually at least. A master plan at any one time then is

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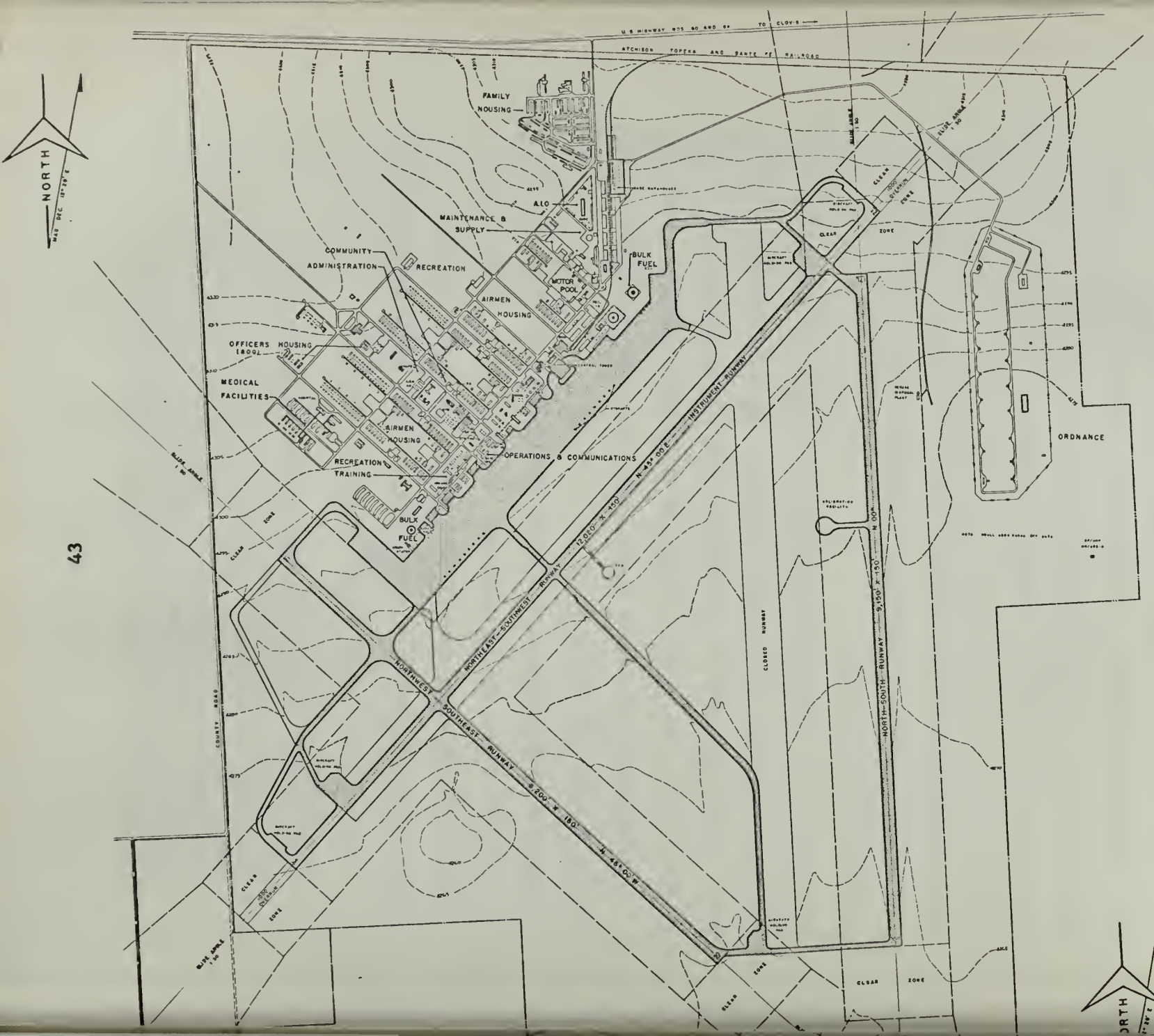
[4] DOD Directive 7040.2, p. 4.

[5] Department of Defense, Office of the Secretary of Defense, Department of Defense Programming System, DOD Directive 7045.1, October 30, 1964, with change 3.



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DESCRIPTION	CAPACITY OR UNIT	TOTAL REQUIRED	EXISTING			UNDER CONSTRUCTION	BALANCE - FUTURE REQUIREMENT	REMARKS
			PERMANENT	SEMI-PERMANENT	TEMPORARY			
(1) Locomotive shop	SF	5,508	-	-	3,579	-	5,508	To accommodate two locomotives
(2) Fuel oil dispensing station	OL	2	-	2	-	-	-	
(3) General purpose warehouse	SF	860,997	437,930	100,000	-	107,000	216,067	
(4) Antenna tower	EACH	1	-	-	-	1	-	
(5) Fire station	SF	3,216	-	-	6,518	-	3,216	Three stalls to house two pumpers, one brush truck
(6) Sanitary fill and burning pit	TONS	2,000	-	-	2,000	-	2,000	New pit required every two to three years
(7) Administration building	SF	30,171	30,171	-	-	-	-	
(8) Land	ACRE	570	570	-	-	-	-	
(9) Gate houses	SF	325	-	325	-	-	-	

SF is abbreviation for square feet
OL is abbreviation for outlet

Items (1), (5) and (6) are replacements for temporary facilities. In the case of Item (1), the proposed facility is larger than the temporary facility now in use; the reverse is true in the case of Item (5).

Source: Department of Defense. Financial and Accounting Procedures in the Area of Appropriations for Military Construction (Washington, D.C.: U.S. Government Printing Office, January 1960).

the best possible picture at that time of existing facilities and of present and anticipated construction.

Annual and future construction needs are established and formulated into distinct projects at the installation level based on definitive directives promulgating criteria, allowances and missions. At the installation level, determination must be made including adequacy of existing facilities and the acceptance of these facilities for extended use. This determination includes evaluations as to safety, health factors of personnel, zoning, access of utilities, etc. In general at the installation level, when requirements are received from above, these requirements are compared with existing assets to determine deficiencies or excesses. Deficiencies are then translated into projects and listed by priority to provide facilities to remove the deficiencies. Figure 3 is provided to show a sample list of projects from a master plan. That portion of the master plan established as requiring authorization and funding in the next fiscal year is then separated and formulated into the construction program request for that installation. The installation commander forwards the program request consisting of projects and justification material (maps, charts, and rationale) through established command and staff channels for ulitmate submission to Congress. At each successive level this "top" portion of an installation's master plan becomes part of a larger five year plan and is integrated into a larger priority system. Each project is screened at each command level to determine relative worth of that project to overall mission accomplishment of the service concerned. As a project progresses up the chain of command, priorities change frequently responding to changes of emphasis and requirements at intervening levels. At the

Figure 3

SELECTIONS FROM A FUTURE REQUIREMENTS LIST OF FACILITIES

DESCRIPTION	UNIT	CAPACITY	ESTIMATED UNIT COST	ESTIMATED TOTAL COST	PRIORITY BY FIELD UNIT	PRIORITY BY HEADQUARTERS	REMARKS
Locomotive shop	SF	5,508	20.90	115,117			Replace existing inadequate temporary facility
Site preparation	ACRE	1	Lump sum	2,000			
Railroad track	LF	100	12.00	1,200			
Roads and parking	SY	670	4.50	3,015			
Utilities - outside			Lump sum	4,000			
Total				125,332	3		
Ground water storage	M GAL	750	12.00	90,000			Expand existing facilities to meet increase in assigned strength
Site preparation	ACRE	1	Lump sum	10,000			
Total				100,000	4		
Family housing							
Quarters for commanding officer	FAM	1	20,000	20,000			Facilities needed to meet increase in assigned strength, and replace existing inadequate quarters for commanding officer
Quarters for field grade officers	FAM	2	16,000	32,000			
Quarters for company grade officers	FAM	2	14,000	28,000			
Site preparation	ACRE	4	1,500	6,000			
Roads and walks	SY	1,100	4.50	4,950			
Utilities - outside			Lump sum	1,000			
Total				91,950	2		
Heating plant	BTU	10,000 M	Lump sum	142,000			Expand existing facilities to meet increase in assigned strength
Utilities - outside			Lump sum	5,000			
Total				147,000	4		
Extension to Parking Area D	SY	23,000	5.15	118,450			Creates employee parking area outside mission area, to accommodate cars now parked on streets and roadways in hazardous manner
Site preparation			Lump sum	3,500			
Utilities			Lump sum	10,000			
Total				131,950	1		

Source: Department of Defense. Financial and Accounting Procedures in the Area of Appropriations for Military Construction. (Washington, D.C.: U.S. Government Printing Office, January 1960).

service department level, all projects are again reviewed and formulated into a service program which is then submitted to the Office of the Secretary of Defense for further review. When this stage has been reached, the planning function has been completed.

Planning then may be thought of as a two way street in the Department of Defense. Initiating from the top of the pyramid at the Office of the Secretary of Defense, definitive guidance is provided as to (1) the missions which are to be accomplished and (2) the criteria which are to be followed in providing support facilities in accomplishing those missions. This guidance is promulgated down through the command-management organization and is used at the operating level to establish master plans of what facilities are necessary to fulfill the assigned missions. Planned construction projects are then forwarded back up the command-management organization for review and approval. A plan has been approved when it becomes part of the official Department of Defense Five Year Defense Plan. Approval must come from either the Secretary of Defense or the Deputy Secretary of Defense.[6]

Programming

The concept of programming as applied in the military construction process amounts to bridging the gap between planning and budgeting. In general, a military construction program is based on the top year of the total integrated master plan for the Department of Defense. That is to say, a review of all military construction requirements is made and from these requirements a program is formulated which will be the budget submission for that year.

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[6] DOD Directive 7045.1, p. 2.

Military construction program formulation is controlled explicitly by the Office of the Secretary of Defense. Definitive policies are established for development and submission of annual military construction programs, as follows:

> "Legislative authorization estimates and appropriations estimates will be determined as provided by the construction annex of the FYDP.
>
> "All estimates will be fully funded. The whole sum required for each project will be requested at one time.
>
> "Estimates of authorizations for accomplishing the part of the minor construction program funded from military construction appropriations will be formulated from the experience of prior years; the funding will be by lump sum. Appropriations are not to be made for this purpose. Funds shall instead be provided through programming actions from appropriations made for accomplishing major construction programs."[7]

The first stated policy is to provide that the program is formulated from the appropriate portions of the Five Year Plan. Strict adherence to this policy dictates that only projects incorporated in approved plans are to be included in budget submissions. That is, the policy is to assure that the program is fully coordinated as developed in the planning stage.

The full funding policy is stated to prevent "foot in the door" tactics in military construction programming. Each project must be programmed so as to be completed without incremental funding and without the need for reprogramming. To provide for unforeseen and/or unexpected escalation of costs, the Congress writes into the annual

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[7] Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), Military Construction Authorization and Appropriations, DOD Instruction 7040.4, (October 25, 1962).

military construction law authorization for the Secretary of Defense to accomplish projects which exceed estimated costs by not more than 5 percent if these projects are within the United States and by not more than 10 percent for projects located outside the United States. A stipulation in this authorization is that the scope of the project may not be changed and that including any increased costs the total amounts authorized in the major construction program may not be exceeded. If the project cost cannot be achieved within these expansion limitations and an increased cost project is still considered necessary, the project must be reprogrammed for Congressional approval.[8]

Each year the Congress has authorized construction of projects which are unknown at the time of program submission, but may arise as urgent requirements prior to the time of next submission. The third of the stated policies pertains to this situation. Since the projects are unknown, this type of authorization is necessary in a lump sum rather than by specific project. By authorizing construction activity for unexpected requirements but to a given dollar ceiling amount and by not appropriating funds for this purpose, but rather by requiring that funds be reprogrammed from other appropriated projects, this last stated policy demonstrates the desire of Congress for the Department of Defense to carefully plan ahead for all requirements and to avoid unforeseen urgent construction requirements as much as possible. In the last four years, commencing with fiscal 1964, Congress has authorized for unforeseen construction requirements $12,250,000, $17,500,000,

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[8] U.S. Congress, Military Construction Authorization Act, 1966, Public Law 168, 89th Cong., 1st. Sess., 1965, Sec. 603.

$10,000,000[9] and $5,000,000[10] for each of the three military departments.

Each request for project approval of the above noted type must be accompanied by a certificate of urgency which will include justification explaining why: (a) The project is urgently required; (b) it was not included in current legislation authorizing military construction, and (c) it cannot be delayed for inclusion in subsequent legislation authorizing military construction.[11] Military Department secretaries may approve projects of this type for not more than $50,000. The Secretary of a military department must report such approval to the Secretary of Defense. The Secretary of Defense may approve construction projects of this type costing not more than $200,000. When a decision has been made to accomplish a construction project within this authorization, the Armed Services Committee of both the House of Representatives and the Senate must be informed. Formal approval from these committees is not required. However, they do desire to be kept abreast of what is occurring in the military construction program.

The formulation of a military construction program is an involved and demanding process. The Department of Defense stated policies are pointedly oriented toward fulfilling Congressional requirements for

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[9] Ibid., Sec. 103, 203, 303.

[10] U.S. Congress, Military Construction Authorization Act, 1967, Public Law 89-744, 89th Cong., 2d Sess., 1966, Sec. 303.

[11] DOD Directive 7040.2 (interim policy amendment, March 5, 1964), p. 2.

justification and review and as stated before, various Department of Defense procedures and criteria must also be met by the submitting agencies. The procedures outlined in the pertinent Department of Defense Instruction are detailed and specific. Existing facilities and installations are to be used to their maximum capability. Care must be taken to insure that designs are functional and without unnecessary features. Each line item must be completely justified with emphasis on relating the requirement to the accomplishment of the mission and to the use of existing facilities.[12]

The actual process which is conducted is similar to that which was described under the planning section. As the President is preparing his budget message for the Congress, each of the installations and review levels in the military chain of command of the defense establishment are reviewing the projects which comprise their five year plan. Full offices of the departmental construction agencies assist in the review to insure compliance with established standards and to help prepare proper cost estimates.[13] Project requests are forwarded from installations at the operating level via the chain of command. At each level, all projects are again reviewed and integrated into higher level priority listings. Finally, the projects, now part of individual service programs, arrive at the Office of the Secretary of Defense in late summer. Program review is then conducted within the Office of the Secretary of Defense, under the direction of the Assistant Secretary of Defense (Comptroller) and

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12 DOD Instruction 7040.4, pp. 3-4.

13 Department of Defense, Financial and Accounting Procedures in the Area of Appropriations for Military Construction (Washington, D.C., U.S. Government Printing Office, January 1960), p. I-21.

(Installations and Logistics), to insure coordination with other programs in the FYDP. This review is conducted jointly with the Bureau of the Budget and when this review has been completed, the projects which have been approved become the Department of Defense military construction portion of the Presidential Administrative Budget.

Each decision made during this stage of the process is made by either the Secretary of Defense or the Deputy Secretary of Defense. The Secretaries of the military departments are afforded the opportunities to reclama (re-argue) these program budget decisions (PBDs) once, but within a limited time period (usually five working days). Reclamas are reviewed and the program is formalized by mid-December. Close association with this stage of the military construction process prompts participants to agree with Jesse Burkhead's appraisal when he wrote:

> "Program review is a political process conducted in a political framework; this is one of the sensitized areas of decision making."[14]

Political interest in this portion of the military construction process has prompted Congressional inquiry concerning the joint Department of Defense, Bureau of the Budget reviews. Mr. Paul R. Ignatius, Assistant Secretary of Defense (Installations and Logistics) described the review as follows:

> "There is a complete and full exchange of information with Bureau staff concerned with the Department of Defense. The Bureau does not determine the construction requirements of the Department of Defense, nor was any arbitrary, predetermined monetary ceiling established for the construction accounts. During the annual budget review each fall, conducted by the Office of the Secretary of Defense, the staff of the Bureau directly concerned is assimilated within the Office of the Secretary of Defense Staff, and while each

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[14] Jesse Burkhead, Government Budgeting (New York: John Wiley and Sons, Inc., 1956), p. 281.

> individual will make his input in the review, the ultimate determination of the requirements rests with the Office of the Secretary of Defense."[15]

This appraisal of the Department of Defense budget preparation is supported in the Ott and Ott study on federal budget policy where it is noted:

> "It should be noted that the budget of the Department of Defense is handled somewhat differently from those of other agencies. The Bureau of the Budget participates with the financial offices of the Defense Department in a review of the requests of the various services for budgetary allowances, but its role here is not quite the same as with other agencies. It acts more as an advisor to the Secretary of Defense than as an arbiter; more decisions must be taken for Presidential action."[16]

The Secretary of Defense, Robert S. McNamara, during House hearings on military readiness in 1965, summed up how decisions are made in the Department of Defense programming process when he said:

> "The Bureau of the Budget has absolutely no authority to determine in any way the budget of the Defense Department. . . .
>
> " . . . There are only two people who can make decisions with respect to the Defense Department budget. In all issues, the decision is made by the President based upon the recommendation which I give to him, including the views of the Chiefs. And to the extent that there are not major issues involved, the only persons to make such decisions are myself or my deputy, Mr. Vance.
>
> "The line of responsibility is very clear. I am responsible for it, and not the Bureau of the Budget."[17]

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15 U.S. House of Representatives, Committee on Armed Services, Hearings, Military Construction Authorization Fiscal Year 1966, No. 12, 89th Cong., 1st Sess., 1965, p. 2245.

16 David J. Ott and Attiat F. Ott, Federal Budget Policy, (Washington, D.C., The Brookings Institution, 1965), p. 17

17 U.S. Congress, House, Committee on Armed Services, Hearings on Military Posture, 89th Cong., 1st Sess., 1965, pp. 310-311.

This section has been primarily concerned with the programming portion of the total military construction process and has shown how programming bridges the gap between planning and budgeting. From the discussion, it can be seen that the decisions made during the programming stage are related to the Five Year Defense Plan. The application of these decisions to appropriations categories constitute the budget stage. There is considerable necessary overlap in these two portions of the process.

Budgeting

The third function of the military construction financial management system is the preparation of the annual budget estimates. As stated above the programming and budgeting stages are closely related. Since a program extends five years beyond the current year, reflects the dollars required for each of the years, and has undergone thorough review, it should theoretically be possible to take the first year of the program beyond the current year and use it for budget formulation. This cannot be done for two reasons. First, the budget review process is necessary to refine the cost data, to provide line item detail and to build the program to the budgetary guidelines established by the President for the Executive Branch of the Government as a whole. Secondly, the program is not stated in budget appropriation terms and therefore, must be translated into functional categories from program classifications. Budget estimates by budget classification (which are military personnel; operation and maintenance; procurement; research, development, test and evaluation; and military construction) are submitted by the military department secretaries to the Secretary of

Defense for review in the early fall. The review which is then conducted coincides with the program review and the results of this review provide the military construction input for the budget submission to Congress.[18]

By the time a construction budget is transmitted to Congress, it has been the subject of study by a number of important offices reflecting different levels of responsibility and point of view including the highest within the defense establishment, and within the Government as a whole. This screening process is conducted at each level with the following questions as guides: Is a project needed; Is it timely? What effect on the total objectives plan would the deletions of a project have? Projects are also screened against the experience factors of utilization of similar existing facilities. In general, then, it can be assumed that the military construction budget which arrives at Congress has been thoroughly reviewed and analyzed.[19]

Although the Congressional review process is beyond the scope of this paper, it is felt that the following discussion is needed to connect the management functions in the Department of Defense process smoothly together.

There are two Armed Service Committees of Congress, one composed of members of the House of Representatives and another composed of members of the Senate. The data which these committees are to consider

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18 Charles J. Hitch, "Planning, Programming, Budgeting System", American Defense Policy, ed. Wesley W. Posvar et al. (Baltimore: The Johns Hopkins Press, 1965), p. 215.

19 Financial and Accounting Procedures in the Area of Appropriations for Military Construction, op.cit., p. 4-2.

regarding military construction, are prepared and presented by the respective military departments. The reason for this is that the committees consider authorization requests separately for each military department, and the authorization when written into law contains a separate section for each department. The committees make an intensive study of all aspects of military construction. Hearings and study of justification of individual projects are detailed and thorough.

The Congressional justification stage of the military construction process results in a legislative check into each military department and an overall check of the Office of the Secretary of Defense to determine what management guidance was used in the process. Prior to authorization, the committee members must be convinced that the screening of projects was guided by the questions (1) What are the requirements? and (2) How are the requirements best met?

To prevent the need for annual reprogramming of all authorized projects, time limits are not assigned to authorized projects. Congress does require that a review be made of authorized but unexecuted projects to prevent unnecessary and inefficient backlogging of outstanding authorizations. All authorizations enacted by the authorization act prior to the last one and for which the appropriated funds have not been obligated by October 1 of the current act's year are therefore repealed.[20]

After the authorization reviews have been conducted, the military construction program is forwarded to the Appropriations Committee of Congress of which there are two -- one for the House and one for the Senate.

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[20] Ibid., pp. 3-1 to 3-5.

These committees hold hearings similar to those conducted by the authorization committees and are in every way as detailed and as thorough. The committees maintain a close watch on projects which have been previously authorized and funded, but which may have been deferred, or abandoned or replaced with substituted projects. This stage of the process is another example of a legislative check on the management practices of the Secretary of Defense.

Military construction appropriations are categorized as one of a major type made by Congress and are classified as "no-year" appropriations.[21] The purpose is to provide flexibility in funding projects over the time required to complete them. Once funds have been appropriated for specifically authorized projects, those funds must be expended for those projects. The distribution of these funds is the subject of the next section.

Funding[22]

Funding is closely associated with the budgeting function which was just discussed and for the further development of the military construction process it is necessary to distinguish between the two. Budgeting, as it has been shown, furnishes data explaining and justifying a request for funds. Funding, on the other hand, is the administrative process by which funds are made available to finance an approved budget.

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21 Burkhead, op.cit., p. 317.

22 Much of the information in this section was obtained from Financial Management in the Navy, Chapter 7.

The administrative process of funding approved projects is accomplished by the following steps: appropriation by the Congress, establishment of credit by the Treasury, apportionment by the Bureau of the budget, allocation by a military department, and allotment by an operating agency. At the point of actual fund expenditure the final two actions of obligations and disbursement are accomplished.

Funds are allocated by the military departments to their construction agencies who then allot funds to the district or area offices. The allotments are the authority for district offices to accomplish the approved work. One allocation is made to each construction agency and one allotment is made to each district or area office. These are increased annually by the appropriate portion of that year's approved budget. The funds in the allotted fund are a pool of resources to pay for approved incurred obligations.

The construction agency prepares and issues to the district offices in the field "construction directives". These documents include: (1) authorization to commence with actual construction; (2) the operating budget for the construction and (3) the advice of allotment or the transmittal of necessary funds to finance the construction.[23]

In trying to abide by Department of Defense policy to provide all costs for military construction by funds appropriated for that purpose[24] certain costs are incurred which create difficulties. These costs are outside the scope of construction appropriations and are classified

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[23] Financial and Accounting Procedures in the Area of Appropriations for Military Construction, op. cit., p. 6-3.

[24] DOD Directive 7040.2, op.cit., p. 3

as "unfunded costs". Unfunded costs are financed by other appropriations such as that for military personnel. These costs are identified in the budgets and must be included when determining the total cost of a project.

The workings of the funding process, made up of the steps outlined above, carry a Congressional appropriation down through the chain to the operating unit which will spend it. This process establishes the fact that a Congressional appropriation is accounted for at each step of the way down the line. This accountability is required by law.[25] The required accountability in the funding process is provided by appropriations, apportionment, allocation and allotment.

Accounting

Financial reporting and accounting guidance has been provided from the Office of the Secretary of Defense. In its program for improved financial management of military construction, the Office of the Secretary of Defense has prescribed that such a program involves development of plans for a "consistent integrated structure for purposes of planning, programming, budgeting, and accounting (including reporting)".[26]

Accounting guidance directs that accounting records at every level should be so designed as to permit summarization in a manner to produce efficiently, accurately, and in timely fashion, the financial reports required in financial management. Each military department is advised to design a financial system to provide an appropriate degree of checks

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25 U.S. Revised Statutes (1951), Sec. 3679 (Anti-Deficiency Act).

26 DOD Directive 7040.2, op.cit., p. 2.

and balances with command, staff and management coordination throughout. The system should facilitate operating results with emphasis on economy.

Although this general guidance emphasizes that each department develop individual systems, there are specific stipulations for conformity and all programs for system development must be submitted for Assistant Secretary of Defense (Comptroller) approval.[27] The financial systems for accounting in the Department of Defense must include as objectives: (1) To provide continuing and timely financial data on the status and progress of performance of programs; (2) to provide financial data for use in coordinated planning, programming and budgeting and in requesting and justifying additional funds, and (3) to provide data for control and reduction of costs. This requirement for review by the Office of the Secretary of Defense of departmental procedures shows the high level of control over both the system and the operation of the system for accounting functions within the total defense establishment.

Statistical Analysis

The statistical analysis function of management in the military construction process focuses on the reports, accounts and other records for information that provide interpretive worth. The reports are for varied purposes; some are financial reports, showing records of transactions and the status of funds. Others are comparisons between scheduled work and accomplished work or progress reports. As was noted earlier, the Office of the Secretary of Defense has as one objective in military construction management, to improve the methods of doing

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[27] Ibid., p. 18.

business by establishing standardized financial data reporting. Through standardization there evolves a uniform approach to statistical analysis starting at the Assistant Secretary of Defense (Comptroller) level down through the command-management chain to the operating installation comptroller.

Monthly financial reports are required of each District Office, by each of the construction agencies, and by each of the military departments. This is the basic report in the system. It is used for analysis at the preparing level and is forwarded to the next higher echelon in the system. Data included in this report are designed to assist in evaluating current operations, to assist in locating needed program updating, to assist in preparing future programs and budgets and to assist in maintaining control over the process. The departments submit to the Office of the Secretary of Defense a summary of all financial transactions for the month. These reports are not finely detailed and are designed to show trends or variations from planned programs.[28]

Annually each department is required to make a summary report showing all transactions for the year. This report provides for the Secretary of Defense a complete picture of the yearly total investment. The report shows costs of completed work, present costs of work underway and anticipated costs of work still underway.

In addition to these reports required by the basic financial management directive 7040.2, there are two other reports which refer to military construction specifically. One of these requires that each department must maintain, in up-to-date status, records of project

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[28] Ibid., pp. 16-17.

description and status for all projects of $5,000 or more. This report is forwarded to the Office of the Secretary of Defense only upon request.[29]

The other special report is on the status of repititive type facilities, which are common to all installations and somewhat similar for all of the services. These facilities include barracks, administrative buildings, mess halls, theaters, gymnasiums and fire houses. This report is required to provide for the Assistant Secretary of Defense (Installations and Logistics) the necessary comparison figures for his directed surveillance and evaluation of military construction.[30] Additional copies of this report are exchanged between the departmental construction agencies. The reports are prepared and forwarded twice during the life of a project: within forty-five days of contract awarding and within ninety days of contract completion.

The foregoing examination of the requirements for formal reporting to the Office of the Secretary of Defense indicates that the system has been designed to provide to that office both financial and work performance information for the purpose of statistical analysis. The information affords the Office of the Secretary of Defense the tools with which to be closely involved in controlling the military construction management process.

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29 Department of Defense, Office of the Secretary of Defense, Military Public Works Basic Records Keeping Requirements, DOD Instruction 4270.3, October 13, 1955.

30 Department of Defense, Office of the Assistant Secretary of Defense (Installations and Logistics), Report of Construction Costs, DOD Instruction 4270.10, June 3, 1963.

Auditing

The Department of Defense audit program encompasses two distinct types of audit -- internal and contract. Internal audit is the individual departmental appraisal of accounting, financial and related matters of an operating nature to ensure compliance with legal and other official regulatory requirements and to promote economy and efficiency in operations. Essentially, internal audit is designed to provide protective and constructive services to management by providing a foundation on which better record keeping and operating efficiency may be achieved.[31] Contract audit is the examination of books and records of private contractors and verification of their cost representations. Included in contract auditing is the furnishing of advice in the form of advisory reports to contracting offices to assist them in negotiating contract prices.[32]

Each of the military departments maintains an audit agency under the departmental comptroller. These agencies have established field offices which accomplish the actual audit function within the internal audit system.

Contract audits, as described above, are performed under the technical supervision and guidance of the Defense Contract Audit Agency. The Agency is responsible to the Secretary of Defense through the supervision of the Assistant Secretary of Defense (Comptroller) for all contract audits within the defense establishment.[33]

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[31] Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), Department of Defense Audit Policies, DOD Directive 7600.2, August 19, 1965, par. III B.

[32] Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), Defense Contract Audit Agency, DOD Directive 5105.36, June 9, 1965, par. VI A.

[33] Ibid.

Related to the internal audit system of the Department of Defense, but not part of it, and a definite factor bearing on the military construction process are the audits performed by the General Accounting Office. General Accounting Office audits are comprehensive examinations required by law to be made of other government agencies in the interest of economy, efficiency and compliance with regulations for the safeguarding of public funds.[34]

The Secretary of Defense is required to respond formally to the Bureau of the Budget after receipt of General Accounting Office audit reports. Pursuant to this responsibility, the Secretary of Defense has established a well-defined system for analyzing, interpreting, taking needed action and responding to these reports.[35]

Auditing then, within the Department of Defense, provided the Secretary of Defense with a financial review of the organization and its method of operation; not in relation to its technical nature but in relation to established goals, production time tables and legislation limitations to which the organization is held.

Actual Construction

To achieve an end result to all of the foregoing planning, programming, and budgeting activity, there must be produced some usable facility from the provided resources. The actual construction process is that function directly involved in such an end product. This function involves, once again, planning, facility design and work supervision at

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[34] Burkhead, op.cit., p. 103.

[35] Department of Defense, Office of the Secretary of Defense, Department of Defense Action on Audit and Investigation Reports by the General Accounting Office, DOD Directive 7650.2, December 29, 1961.

the construction site. In this performance, as in any other operational function, there are various related administrative activities such as material and equipment procurement and contract administration.

In this particular function the Office of the Secretary of Defense has, in practice, left the management of the actual construction to departmental construction agencies. The interest of the Office of the Secretary of Defense in this area was referred to earlier when it was established that design standard and specifications for facilities were to meet Secretary of Defense criteria for approval. Also mentioned earlier was the control over contracts for construction which is exercised by the Office of the Secretary of Defense.

Most of the actual construction work is done by independent contractors who receive fixed price contracts through competitive bidding.[36] The military departments audit agencies and the General Accounting Office maintain a watch to assure that the contract is properly managed.

In each of the other functions of the military construction management process, the Office of the Secretary of Defense has been shown to actively participate by directing and controlling all of the procedures for requesting, obtaining and spending money. Each of these activities has been monitored very closely through the established accounting and auditing mechanisms. In this final function, it would appear that the Office of the Secretary of Defense exerts little control over this particular portion of the process.

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[36] Financial and Accounting Procedures, op.cit., p. 7-3.

CHAPTER V

SUMMARY

The management process of military construction within the Department of Defense is a complex command-management system which is designed to function under the closely held authority, direction and control of the Secretary of Defense. The process is one which holds the interest of Congress and, as a result, is subjected to much Congressional influence.

The Secretary of Defense has established that guidance and policy in the form of Department of Defense Directives shall be issued only by him or by the Deputy Secretary of Defense. There has been some delegation of administrative authority in the military construction management process, but functions performed within this delegation have been well defined portions of established policy approved by the Secretary of Defense personally. The Office of the Secretary of Defense has an administrative staff which gathers information, evaluates the information, and organizes it into presentable formats so that the Secretary may choose, from provided alternatives, solutions to related problems. In the aggregate, these choices help to form the Department of Defense Five Year Program. Additionally, the gathered information assists the Secretary in making spending decisions which are implemented at the apportionment stage of the budget process. An example of this type of decision was the deferred releasing of fiscal year 1966 military

CHAPTER 2

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construction funds which were referred to in the introduction. A member of this staff, alain Enthoven, Assistant Secretary of Defense (Systems Analysis), has said, ". . . our whole aim is to present the decision maker with the clearest possible picture of what his choices really are. . . ."[1] When decisions have been made by the Secretary of Defense, his staff then functions in a management control capacity to see that the decisions are put into effect as directed by the Secretary.

Another member of the staff, Dr. Robert N. Anthony, Assistant Secretary of Defense (Comptroller), has defined the last noted function in this way:

> "Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization objectives."[2]

In this definition the idea is conveyed that the control process takes place within a context of objectives and policies directed by the Secretary.

The stated management philosophy of the Secretary of Defense is to have the decision making level forced as far down the pyramid of command-management as possible. However, under the personal guidance of the Secretary of Defense, there has been a tightening up of the supervision over the management of the military construction process. As a result of this strict management control, the decision making process has in effect, been centralized within the Office of the Secretary of Defense.

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1 Alain Enthoven, Systems Analysis in Defense, a report to the nation on the status of the Armed Forces in 1966, prepared by the Department of Defense (Washington, D.C., U.S. Government Printing Office, 1966), p. 28.

2 Anthony, op.cit., p. 17.

To help in accomplishing the command-management process of military construction within the Department of Defense, the Secretary of Defense has two assistants. One is the Assistant Secretary of Defense (Installations and Logistics) and the other is the Assistant Secretary of Defense (Comptroller). These two members of his staff, with their respective staffs, oversee for the Secretary of Defense, the five areas of management activity which make up the military construction management process. The areas are: (1) policy formulation, (2) formulation of design standards, (3) establishment of financial management procedures, (4) formulation of contract procedures, and (5) establishment of administrative responsibilities throughout the Department of Defense for construction.

The Office of the Secretary of Defense has issued directives explaining what types of activities are to be managed in the military construction category. These directives explain thoroughly when and how the determinations of what to include in military construction programs are to be made. The directives are carefully worded to prevent individual service or command interpretation. The purpose and intent of these directives is apparent; they have been designed and kept current to insure the most thorough and effective direction by the Secretary of Defense of all of the individual projects which, within the intent of the Congress, fall in the classification of military construction.

Having established what projects shall be included in the military construction program, the Secretary of Defense, through his installations and logistics assistant, has prescribed specific standards of construction

which must be followed. In this area of management activity there has been some delegation of decision making authority concerning design criteria. There is, however, also a requirement for immediate reporting of the exercising of that authorization to the Assistant Secretary of Defense (Installations and Logistics). Effective control over this management area is maintained through this quick reporting requirement.

Financial decisions made by Congress, when it authorizes and appropriates funds for the defense establishment's military construction programs, are adhered to closely and within the intent of the authorization. The Assistant Secretary of Defense (Comptroller) acts as the principal assistant to the Secretary of Defense in fulfilling this requirement. The defense comptroller maintains control of authorized and appropriated funds through a financial management system.

Through the Department of Defense financial management system, the Comptroller gives guidance to the military departments in the functions of programming, budgeting, funding, accounting, statistical analysis and auditing. The Comptroller and his staff are the principal reviewers for the Secretary of Defense of the annual budget submissions of the military departments. In the review of military construction projects for the annual budget formulation, it is the staff of the Assistant Secretary of Defense (Comptroller) which provides to the Secretary of Defense the alternatives from which Program Budget Decisions are made.

Budget decisions result in budget formulation which ultimately lead to funding by the Congress. When the military construction program has been funded, the financial management system once again becomes

active in the administration of these funds. The Assistant Secretary of Defense (Comptroller) and his staff provide guidance in the form of rules and procedures for the handling of appropriated funds. The directives which establish the financial management system and its functions, define it as a closely controlled system designed to assist the Secretary of Defense in the management control of the Department of Defense.

Dr. Robert N. Anthony, the Assistant Secretary of Defense (Comptroller), provides probably the best description of what he, as Comptroller, does for the Secretary of Defense when he states: "the comptroller . . .; he should construct and operate a system through which management exercises control."[3]

The Office of the Secretary of Defense does not involve itself in the execution of contracts relative to the military construction process. The Secretary issues policies concerning this function and in fact, the issuance of all policies and procedures in this regard has been centralized within his office. The service departments may issue directives to supplement those from higher authority, but all such supplemental directives are reviewed and approved by the Office of the Secretary of Defense.

Basic departmental administrative responsibilities for military construction management are now as they were when the Office of the Secretary of Defense was created by the National Security Act of 1947. There are independent service secretaries but the Secretary of Defense is charged with the responsibility of establishing policy and procedure for the entire defense establishment. By providing specific guidance,

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[3] Ibid., p. 28.

specific policy and rigid financial management mechanisms, the Secretary of Defense has, in effect, centralized the decision making process for military construction.

Each of the service departments maintain a command-management system for all of the functions of military construction management. Individual service plans are developed based on long-range objectives established by the Office of the Secretary of Defense. The guidance for planning is provided in well defined directives.

The service plans provide the basis for individual service programs which are a statement of service requirements to fulfill the stated and approved plans. Review of these service programs is conducted by the Office of the Secretary of Defense and from this review emerges the Department of Defense Five Year Plan (FYDP). In theory, the first year of the FYDP should provide the next year budget submission. Due to the continually changing requirements within the defense establishment, however, this in fact, is not the case. Each of the service departments, therefore, annually provides a military construction budget request.

Departmental military construction budget requests are formulated based on the request for facilities from the operating forces. These requests are processed through the command-management systems of the services with thorough review of requirements at each level. Final service-wide review is conducted at the service secretary level and a service budget is submitted to the Office of the Secretary of Defense.

Review of the service departments military construction budget request is conducted jointly by the Office of the Secretary of Defense and the Bureau of the Budget. Each line item in the total request is reviewed separately and decisions are made personally by either the

Secretary of Defense or the Deputy Secretary of Defense. Service secretaries may reclama (re-argue) disapproved projects for reconsideration one time. These reclamas are re-reviewed and final decisions are rendered. Those items which have been approved through this review then become the military construction budget request to Congress. Service secretaries and their military staffs then provide justification to the Congressional hearings for their portion of the Department of Defense budget.

When projects have been authorized and funds have been appropriated to finance those projects, execution controls within the Department of Defense are exercised through the mechanisms of apportionment, allocation, and allotment. The procedures for these functions are generally accomplished by the service departments within the guidance limitations established by the Office of the Secretary of Defense.

Within this total management system which has evolved as a financial management system, there are information reporting functions. When appropriated funds have been distributed down through the financing system for expenditure, there is a system of reports back up the line to provide the Secretary of Defense with close control over the system.

The Assistant Secretary of Defense (Comptroller) has established policy and procedures for a system of audits and reports to be made. The reports provide a comparison between planned expenditures of the operating budgets and actual expenditure from distributed funds. The reports are thorough and audits are conducted in detail by an agency other than the agency responsible for the construction. This self examination within the service departments and defense agencies is carefully conducted and

uncovered errors are quickly corrected since audit is also conducted by the General Accounting Office.

In addition to audits, the Office of the Secretary of Defense maintains a continuous close liaison with the military departments to assure compliance with established policy, standards and procedures. Through the system of reports through the mechanisms of audits and inspections, the Secretary of Defense has available the necessary information with which to exercise effective direction of the management of the military construction process.

CHAPTER VI

CONCLUSIONS

The purpose of this study is to identify and examine the management system for the military construction process within the Department of Defense. The examination was conducted in an effort to identify the existing organization within the Office of the Secretary of Defense and the directive guidance provided by that Office for the management of the military construction programs throughout the Department. The study has shown that the management philosophy practiced by the Secretary of Defense, Robert S. McNamara today is similar to the philosophy he stated in 1962:

> "Let me say, first, I have never met the perfect administrator and certainly I'm not one. There are many similarities between administration in any large organization, including the Ford Motor Company, and the Administration problems we face in Defense. In both cases, we're dealing with large numbers of people. We attempt to formulate objectives and lead our people toward them efficiently and effectively. I try to surround myself with able people and lead them as effectively as I can, utilizing their talents to the full.
>
> "An administrator can follow either one of two alternative approaches. One I call the judicial process, or the judicial role. In this instance, the administrator waits for the problems to be brought to him, along with proposed solutions, which he either accepts or rejects.

Chapter VI

Conclusion

> "In the other case -- the alternative -- a man plays an active role as a leader, probing for problems, seeking to develop solutions, accepting suggestions, requesting the advice of experienced personnel. He then acts decisively and effectively to accomplish the solution.
>
> "This latter is the approach we're trying to take in Defense today."[1]

The Secretary of Defense has issued statements and directives which acknowledge his full responsibility for decisions made within the Defense Department and which establish that nothing is to be done except under his authority, direction and control. Only he or the Deputy Secretary of Defense may issue Department of Defense Directives. Certain portions of administrative activity have been delegated to staff members, to reduce the detail required of the Secretary, but little delegation has been made of decision making authority. The staff of the Office of the Secretary of Defense controls that which is done in the Department within the limits of approved policy and programs, which the Secretary approves personally.

The management practices of the Secretary of Defense result in him personally setting the military construction management objectives and initiating the action to achieve these objectives. That is, he reviews the alternatives and he chooses the course of action. He maintains control over objectives and actions through the mechanism of the planning, programming and budgeting development of the Five Year Defense Plan (FYDP). Changes in the five year plan or in operating budgets must be approved by him. The principal devise for planning control is the FYDP. Action is

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[1] "How the Boss Operates", Armed Forces Management, November 1962, p. 18.

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itiated for achieving construction objectives through apportionment and allotment of appropriated funds which he directs.

The military departments assist in the development of the FYDP by submitting project requests for coordination by the Office of the Secretary of Defense and for decisions by the Secretary of Defense himself, as to the formulation of the approved military construction annex to the FYDP.

The service departments also participate in the apportionment process through the development of operating budgets for approval by the Secretary of Defense. Once approved, budgets may be executed without further referral to the Secretary. However, changes with affect the FYDP or the total value of the approved operating budget must be submitted to the Secretary of Defense for reconsideration and decision.

In order to maintain close control over the process, the Secretary of Defense utilizes the discipline of financial management. The financial management system helps to establish policy and provides procedures for following up by a set of reports and by a system of inspection and audit. At the same time, there is a continuing review of the need for all approved projects.

The system of financial and physical progress reports and of inspections and audits seems to well serve the information needs of the Secretary of Defense for effective control. It measures both accomplishment and consumption and provides current status. It provides for highlighting potential problems for his attention. It provides him a way of knowing that policies and rules are being adhered to and indicates whether there is a need for remedial action. The information system together with the planning, programming, and budgeting system provides an integrated method

for continuous reevaluation of construction programs, for keeping abreast of advancements in the technology of construction and for balancing costs and purposes of construction management.

The Secretary of Defense obtains continuous evaluation of the success of military construction through the careful integration of the information system with the planning, programming, and budgeting system. Relative degrees of success are measured by cost comparison of current performance with past performance. The continuing validity of objectives, standards of quality in design, construction costs or any other goals can be assessed in relation to each other and in terms of the military purposes to be served.

This establishing by the Secretary of Defense of firm direction over financial management with its result of placing more effective control of all activities into the hands of the Secretary of Defense definitely illustrates the tendency toward centralization of operations into the Office of the Secretary of Defense.

Through this control of the financial management process, the Secretary establishes requirements, obtains the means, distributes, keeps account of, and reports on the resources available to support the operating forces.

The Office of the Secretary of Defense performs staff review and follows up with the military departments, routine matters to assure compliance with established rules and procedures. As a staff, its authority does not extend to making operating decisions, it does refer the need for any decisions to the Secretary of Defense.

> "Neither statute nor practice leaves any question as to who manages the Department of Defense today; Secretary Robert S. McNamara does. Very early in his tenure, Mr. McNamara established the mechanics for centralizing his control over the decision making process and for administering the entire department. This system . . . places management control of all the military services at the apex of the defense organizational pyramid."[2]

The Secretary of Defense has made his position as "top of the pyramid" vital and involved. The responsibilities for decisions, planning, and action have been established at the top of the pyramid. Authority delegated to the staff is limited to administrative matters and have been well defined. Management of military construction is highly centralized. Mr. McNamara has not been very successful in his claimed attempt to delegate authority and responsibility to lower levels in the organization.[3] There is one decision maker; there is one manager -- the Secretary of Defense.

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2 Captain John B. Cline, "Defense Management: The Navy's Position", United States Naval Institute Proceedings, (January 1965), p. 44.

3 "Defense Decision Making as McNamara Sees It", Armed Forces Management, November 1963, p. 16.

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